UNITED STATES COURT OF APPEALS
TENTH CIRCUIT

No. 74-1800

KEITH B. REDD, d/b/a ABAJO PETROLEUM,
Appellee,

vs.

SHELL OIL COMPANY,
Appellant.

Appeal From The United States District Court
For The District of Utah
Central Division
(D.C. # C 104-71)

Before HILL, SETH and McWILLIAMS, Circuit Judges.

Filed November 3, 1975

SETH, CIRCUIT JUDGE: The plaintiff, Keith B. Redd, has been engaged in the business of marketing gasoline and other petroleum products in Utah and Arizona, doing business as Abajo Petroleum. As to defendant Shell, he operated as a "jobber," that is, one who resells at wholesale petroleum products purchased from Shell to service stations and other commercial accounts. Redd's contract with Shell was known as a "sales contract." It was terminated by Shell, and plaintiff began this action.

Redd's original complaint charged (1) that Shell and Continental Oil Company had conspired in violation of the antitrust laws to eliminate competition, to restrict his territory and to terminate his contract with Shell, and (2) that Shell had breached its "jobber" contract. Shell answered with a general denial and counterclaimed on two

counts, (1) payment due on open account, and (2) damages for illegally "palming off" other gasoline under the Shell trademark. Continental was dismissed from the suit. Redd filed an amended complaint which realleged claims of territorial restriction and breach of contract and asserted in a new count that Shell violated antitrust law by illegally "tying" the use of its trademark to purchase of its gasoline.

The trial court decided several issues as questions of law on pretrial motions for summary judgment. The remaining issues, basically damage questions, were submitted to a jury which returned a verdict for plaintiff. The defendant has taken this appeal.

A basic pretrial determination made by the trial court was that the jobber sales contract between plaintiff and Shell contained a tying arrangement in violation of the Sherman Act, 15 U.S.C. § 1. Should there be such an arrangement, it would be a per se violation if the requisite economic power and market control are shown. The Supreme Court in Northern Pacific Ry. v. United States, 356 U.S. 1, and in Times-Picayune Publishing Co. v. United States, 345 U.S. 594, has defined a tying arrangement as an agreement whereby a product is sold on the condition that the buyer also purchase a different product, the "tied product," from the seller. The consequences in the market of the tied product are apparent. A variation on the typical tying arrangement is also expressed in section 3 of the Clayton Act, 15 U.S.C. § 14.

The trial court thus decided as a matter of law that the sales contract constituted a tying arrangement between the gasoline sold to plaintiff under the contract as one "product," and the Shell trademark which he was permitted to use thereunder if he wished to do so as the other "product." The gasoline (and related petroleum prod-

ucts) and the trademark thus were held to be the two distinct products by the trial court's order on the tying issue. The order was entered on plaintiff's motion for partial summary judgment and thus decided the liability issue under section 1 of the Sherman Act before the case was tried to a jury.

We will consider only the "two product" aspect of the arrangement, and the trial court's view thereof. The contract between the parties permitted the plaintiff to use the Shell trademark in connection with the sale of petroleum products. It also prohibited the plaintiff from selling the products from other sources under the Shell trademark. The contract, referring to plaintiff as the Buyer, in part provided:

> ". . . Buyer shall have the right to sell, under Shell's trademark, brand names and color schemes, the products purchased hereunder, for tank truck delivery. . . ."

Also it stated:

> ". . . Buyer shall not sell, under Shell's trademark, brand names, or color scheme . . . any product other than . . . purchased hereunder. . . ."

The contract was a sales agreement to create a jobber relationship between Shell and plaintiff as above mentioned. The plaintiff was in business, had his own bulk stations and trucks, and did business as Abajo Petroleum. He was not doing business as Shell Oil Company, and he sold products represented to be from sources other than Shell. He had his own business enterprise and entity identified under his own name. Thus he did not have a "franchise" as the term has come to be used. The trademark use had nothing to do with the manner in which plaintiff did business, and he was not obligated to sell Shell gasoline as Shell gasoline. Thus the trademark could

be a representation, if plaintiff wanted to make it, that the gasoline was Shell gasoline and thus either made by or for Shell. Plaintiff was to do nothing with the gasoline other than to buy it from Shell, receive it, store it, and transport it to his customers. The record shows that when the contract in question terminated, the next day he became a jobber for Exxon.

The permissive trademark use did not in any way transform the mark into a separate product to be sold to plaintiff. The provisions for use of the trademark were designed for the sale of a liquid product in bulk. The most important product sold was the gasoline, and this was a typical sale of a trademark product. *See* 15 U.S.C. § 112; Associated Press v. Taft-Ingalls Corp., 340 F.2d 753 (6th Cir.), and Trail Chevrolet, Inc. v. General Motors Corp., 381 F.2d 353 (5th Cir.). If the product had been packaged in some way, the consequences would have been the same, and the product sold as one marked package. There was certainly no one else in the market selling the Shell trademark, and Shell was not selling its trademark separately; it cannot be considered as a "product."

The plaintiff asserts that the case of Siegel v. Chicken Delight, Inc., 448 F.2d 43 (9th Cir.), is persuasive. This concerned a typical fast food franchise which consisted basically of the use of a trademark or name if the business was conducted in a prescribed way and in a place with a required appearance. This is quite different from the typical sale of a trademark product as we have before us. *See* Drexel Enterprises, Inc. v. Richardson, 312 F.2d 525 (10th Cir.), and National Nu Grape Co. v. Guest, 164 F.2d 874 (10th Cir.). The case is not in point sufficiently to assist us in solving our problem. Also we do not necessarily agree with its analysis of the problem. *See also* Warriner Hermetics, Inc. v. Copeland Refrig. Corp., 463

F.2d 1002 (5th Cir.); Susser v. Carvel Corp., 332 F.2d 505 (2d Cir.); Aamco Automatic Transmissions, Inc. v. Tayloe, 368 F.Supp. 1283 (E.D. Pa.), for decisions related to the *Chicken Delight* opinion.

The trial court was thus in error in considering the trademark as a separate product sold under a tying arrangement with the gasoline. We said in Colorado Pump & Supply Co. v. Febco., Inc., 472 F.2d 637 (10th Cir.), that two different products must be involved before there can be a tying arrangement, and the essential ingredients of a prohibited tying arrangement were therein described. *See also* Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495 and the dissent therein. This error in the determination of liability requires a reversal of this case, as much of what followed in the proceedings was based thereon. There are some other related issues and some separate issues which should be decided on this appeal.

The trial court also decided as a matter of law that there was a per se violation of the Sherman Act in the contract provisions relating to the territory in which plaintiff was to market. This violation was considered by the court to defeat, on summary judgment motion, Shell's counterclaim against plaintiff for passing off gasoline purchased from other sources as Shell gasoline. *See* trial court's order of February 15, 1974, granting plaintiff summary judgment on Shell's counterclaim. The determination is carried over into the trial court's instructions.

The sales agreement did contain definite provisions as to plaintiff's "territory," and a map was attached to the agreement on which it was so marked. The agreement thus contained clear restrictions on the area within which plaintiff could sell.

This court, in Colorado Pump & Supply Co. v. Febco, Inc., 472 F.2d 637 (10th Cir.), expressly held that the existence of such contract provisions, standing alone, does not create a per se violation of the Sherman Act. The cited case was based on the opinion in United States v. Arnold, Schwinn & Co., 388 U.S. 365, and cited with approval Janel Sales Corp. v. Lanvin Parfums, Inc., 396 F.2d 398 (2d Cir.). This court thus held that in addition to contract provisions for territorial restrictions, there must be a "firm and resolute" action by the seller to enforce such limitations. The "firm and resolute" terminology comes from the trial court's characterization of the defendants' efforts in the *Schwinn* case. Adolph Coors Co. v. FTC, 497 F.2d 1178 (10th Cir.), was cited as a contrasting case wherein Coors had "rigorously enforced its territorial restrictions." For an application of similar principles, *see* Belliston v. Texaco, Inc., 455 F.2d 175 (10th Cir.).

In view of the above cited cases, it was error for the trial court to decide as a matter of law that the existence of contractual limitations was sufficient. For there to be a violation, the fact question of enforcement or compliance had to be determined. This error was also carried over into the instructions to the jury wherein the court stated in two places that the territorial restrictions in the agreement constituted a per se violation.

As mentioned above, the trial court on summary judgment eliminated a counterclaim of defendant. During the course of discovery, the defendant asserts that it became known to it for the first time that plaintiff had been selling gasoline purchased from Plateau and other sources as Shell gasoline. Defendant then counterclaimed for trademark infringement and "palming off" in violation of the Lanham Act, 15 U.S.C. § 1114. The defendant sought summary judgment as did the plaintiff. The plaintiff's

motion was granted on the basis of the tying arrangement above considered. Upon our holding the trial court was in error in so disposing of this counterclaim, and it must be reinstated.

There were further disagreements between the parties as to the meaning of certain of the contract provisions specially as to commission payments under certain conditions. We do not decide these issues in view of the disposition of the case.

We must reverse. The judgment is set aside and the case is remanded for further proceedings in accordance with this opinion.

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF UTAH

C 104-71

KEITH B. REDD, d/b/a ABAJO PETROLEUM,
Plaintiff,

vs.

SHELL OIL COMPANY,
Defendant.

Filed December 2, 1974

RITTER, D.J.: On February 15, 1974, the Court determined as a matter of law that the defendant Shell violated Section 1 of the Sherman Act, 15 U.S.C. § 1, by tying the licensing of the defendant Shell's trademarks, brand names and color scheme to the sale and distribution of gasoline to the plaintiff [1974-1 TRADE CASES ¶ 75,064]. The Court also determined as a matter of law that Shell was barred from maintaining an action for trademark infringement, on the ground that Shell had utilized its trademarks to violate the antitrust laws. The Opinion of the Court is set forth below.

I. *Statement of Uncontroverted Facts*

The plaintiff, Keith B. Redd, doing business as Abajo Petroleum, has been engaged in the business of marketing gasoline and other petroleum products in southeastern Utah and northeastern Arizona since 1958. Redd operates as a jobber distributing wholesale petroleum products to service stations and other commercial accounts in this geographical area. Redd also supplied three service stations in which he held an ownership interest.

Shell Oil Company engaged in the production, transportation, refining and marketing of petroleum products

on a worldwide basis. Shell's 1971 Annual Report states that as of December 31, 1971, Shell's total assets were $4,646,282,000. Shell's net income was in excess of $244,504,000 for 1971. Gross liquid hydrocarbon production in 1971 amounted to 731,000 barrels daily. Shell sold 1,020,000 barrels daily of refined products. In addition, Shell has the following Shell trademarks which are utilized in the sale of gasoline: "Shell", "Shell Design", and "Shell of the Future".

Redd entered into a contract with Shell on April 8, 1964, wherein Redd became a branded Shell jobber. As a branded Shell jobber, Redd purchased petroleum products from Shell and resold the products to service stations and other large industrial accounts.

Immediately prior to April 8, 1964, Shell acquired the Ciniza, New Mexico, refinery from El Paso Natural Gas Products Company. El Paso had supplied Redd prior to Shell's acquisition of the Ciniza Refinery. After the acquisition, Shell sent Redd a letter explaining that Shell had acquired the refinery and that Shell was interested in establishing a supply arrangement with Redd. Shell contacted Redd and presented Redd with Shell's standard form 0422-1 (Rev. 7-61) Sales Contract for Redd's signature. The standard form contract on its face contains terms that tie the use of Shell's trademarks to the purchase of gasoline and other petroleum products. Paragraph 6 of the contract states:

> 6. Franchise: During the continuance of this Contract, Buyer shall have the right to sell, under Shell's trademarks, brand names and color scheme, the products purchased hereunder, for tank truck delivery within the territory outlined in red on the map attached hereto (herein called "Buyer's territory"); but Shell reserves for itself the right to sell its products under its trademarks, brand names and color

scheme within Buyer's territory, and for itself and all others authorized by it, the right so to sell such products outside of Buyer's territory. *Buyer shall not sell, under Shell's trademarks, brand names or color scheme: any product other than the products purchased hereunder; or any mixture or adulteration of any product purchased hereunder with any other product (whether or not purchased hereunder) or material; or any product purchased hereunder outside of, or for delivery or resale outside of, Buyer's territory (Shell's decision to be final as to whether or not any location is within Buyer's territory). If Buyer ceases to purchase products hereunder or if this Contract terminates for any reason, Buyer shall immediately and completely discontinue the use of Shell's trademarks, brand names and color scheme,* and refrain from the use of any mark, name or color scheme similar thereto; and if Buyer fails so to do, Shell shall have the right, at Buyer's expense, to enter any premises owned, occupied or controlled by Buyer, and to remove, obliterate, paint over or otherwise destroy Shell's or any similar marks, brand names and color scheme wherever found. At any time after any termination of this Contract for any reason and within thirty (30) days prior thereto, or at any time after the giving or receipt of any notice of termination of this Contract, Buyer, Shell and any present or future distributor of "Shell" products shall each have the right to solicit and execute sales contracts for their respective products with customers to whom Buyer has theretofore been selling "Shell" products; and neither Buyer, Shell, any such distributor nor any such customer shall incur any liability to Shell or Buyer by reason of the solicitation, execution or performance of such contracts or the consequent nonperformance of any such customer's outstanding contract with Buyer. [Emphasis added.]

The portions of paragraph 6 of Shell's standard form contract emphasized above specifically restrict the use of Shell's trademarks to the sale of products purchased from

Shell. Furthermore, paragraph 1 of the contract contains a range between a minimum and maximum amount of petroleum products that Redd was obligated to purchase from Shell in order to remain a branded jobber. The purpose of the range is to insure that the branded jobber would purchase all of his petroleum products from Shell Oil Company. Paragraph 1 states:

> 1. Products-Quantities: Shell shall sell and deliver to Buyer, and Buyer shall purchase and receive from Shell, such quantities as Buyer shall order from time to time, of the respective "Shell" products for which minimum and maximum quantities are specified in the following schedule, but not less nor more (except at Shell's option) of each product, during each contract-year, than the respective minimum and maximum quantities thereof specified in the schedule (in gallons unless otherwise specified):

"Shell" Product	Quantities (Gallons) Minimum	Maximum
Regular Gasoline	534,000	1,602,000
Premium Gasoline	267,000	801,000
Aviation Gasoline		
Grade 80		
Grade 91		
Grade 100		
Grade 115		
Automotive Lubricants	2,500	7,500
Aviation Lubricants		
Marine Lubricants		
Industrial Lubricants	6,200	18,600
Specialties	500	1,500
Anti-Freeze	1,000	3,000
Special Products		
Kerosene	4,000	12,000
Range Fuel		
Stove Oil		
Furnace Oil	2,000	6,000
Premium "Dieseline"		
"Dieseline" 40		
"Dieseline" 50	1,500	4,500

No. 4 Fuel Oil
Light Fuel Oil
No. 5 Fuel Oil
Medium Fuel Oil
No. 6 Fuel Oil
Industrial Fuel Oil

Shell may, at its option from time to time sell and deliver to Buyer such "Shell" products other than those for which quantities are specified, as Buyer may desire to purchase and receive from Shell; and any such sales and purchases shall be on the terms and conditions herein provided, except as otherwise agreed in writing.

Paragraphs 4 and 5 of the Redd-Shell contract state:

> 4. Deliveries: Buyer shall purchase and receive each product in approximately equal quantities during each calendar month, subject to seasonal variations in Buyer's requirements. Shell shall not be obligated to make any delivery: (a) at, or for shipment to, any destination(s) other than Blanding, Utah and Kayenta, Arizona.
>
> 5. Terms: Terms of payment shall be cash on delivery or such credit terms as may be extended by Shell, which may be altered or revoked by Shell at any time.

The contract does not provide that Shell retain any title to the products after sale to Redd. In fact, the place of delivery provision (paragraph 4) in conjunction with the credit terms provision (paragraph 5) indicates that it was the parties' intention to transfer title at the time of sale. Even so, Shell still restricted the area in which Redd could resell the products. Paragraph 6 of the contract provides in pertinent part that:

> ***Buyer shall not sell,*** under Shell's trademarks, brand names or color scheme: any product other than the products purchased hereunder; or any mixture

> or adulteration of any product purchased hereunder with any other product (whether or not purchased hereunder) or material; or *any product purchased hereunder outside of, or for delivery, or resale outside of, Buyer's territory.* (Shell's decision to be final as to whether or not any location is within Buyer's territory.) [Emphasis added.]

In the area of Redd's operation, Continental Oil Company did not have any refining capacity and thus was operating as a wholesaler on the same functional level as Redd. Continental purchased petroleum products from Shell at the Ciniza Refinery under purchase agreements dated August 25, 1965 and May 7, 1969. However, Shell sold petroleum products to Redd for resale under Shell's trademarks at a considerably higher price than the petroleum products sold to Continental. The prices to Redd were delivery point prices at Blanding, Utah and Kayenta, Arizona, whereas Continental's prices were for petroleum products delivered at the Ciniza Refinery. The excessive price charged Redd, however, did not result merely from increased transportation costs.

The Shell standard form contract precludes a branded jobber from purchasing petroleum products for resale under the Shell trademarks from other Shell branded jobbers. The only petroleum products that can be sold under the Shell trademarks are those purchased directly through Shell Oil Company. That Shell enforces this interpretation is clear from the proceedings in the instant case. During the time that Redd was a Shell jobber, Redd purchased petroleum products from Eugene Hunt, doing business as Hunt Oil Company. At all times Hunt was a branded Shell jobber selling petroleum products under the Shell trademarks with Shell's consent. Hunt acquired his "Shell" products from the American Refinery in Salt

Lake City, Utah. After Redd filed his complaint in this action, Shell counterclaimed charging that Redd violated the limited permission he had to use Shell's trademarks by selling petroleum products purchased from a "non-Shell" source (Hunt) and selling those products under Shell's trademarks. Therefore, paragraph 6 of the Shell standard form contract was designed and had the direct effect of requiring that Shell make the sale of products to anyone using Shell's trademarks and that no one else could supply those accounts.

Pursuant to the contract, Shell supplied Redd with a substantial amount of petroleum products between 1964 and 1971. The total dollar volume between 1964 and 1971 was in excess of three million dollars. The gasoline, diesel fuels and other petroleum products which Redd marketed in his trade area were supplied by Shell from its Ciniza Refinery.

Shell's attempts to preclude branded jobbers from purchasing petroleum products from suppliers other than Shell were not premised upon any theoretical or real differences between Shell gasoline and that of other potential suppliers. Specifically, the plaintiff's First Set of Interrogatories asked the following interrogatory:

> Interrogatory 5. State with regard to each delivery of (1) regular and (2) premium grade gasoline by Shell to the plaintiff:
>
> (a) The research octane.
>
> (b) The motor octane.
>
> (c) Each physical, chemical, or other characteristic of such gasoline that you claim distinguished such gasoline from any other gasoline having the same research and motor octane as your gasoline.
>
> (d) Each physical, chemical, or other characteristic of the gasoline that you delivered to the plain-

tiff, including but not limited to its research or motor octane which you claim was different from the gasoline that you delivered during the same period of time to Continental Oil Company from your Ciniza Refinery.

During the hearing on Redd's motion to compel Shell to answer Interrogatory 5, Redd's attorney made the specific claim that Shell was using its trademarks as an illegal tying device in violation of the anti-trust laws. Subsequently, with full knowledge of Redd's claim, Shell answered the interrogatory stating that "Shell does not make any claim in this case concerning differences between . . . Shell gasoline and any other gasoline delivered to plaintiff . . ." At no time prior to trial did Shell amend this answer. The Court relied on this answer when it granted Redd's motions for summary judgment and partial summary judgment and denied Shell's motion for partial summary judgment. Therefore, Shell is estopped from attempting to raise any new issue relating to any alleged differences between its gasoline and any other gasoline purchased by Redd.

Shell's response to Interrogatory 5 states:

(a) and (b)—To the extent that Shell has information requested by this interrogatory, it may be derived or ascertained from the business records of Shell, and from examination, audit or inspection thereof and the burden of deriving or ascertaining it is substantially the same for plaintiff and for Shell. These documents may be identified as Interrogatory 5 documents and are available for plaintiff to examine, audit or inspect, and to make copies, compilations, abstracts or summaries thereof at a time and place mutually convenient to plaintiff and Shell.

(c) Shell does not make any claim in this case concerning differences between the physical, chemical or other characteristics of Shell gasoline and any

other gasoline delivered to plaintiff or third persons. Moreover, Shell does not know the physical, chemical or other characteristics or the research or motor octane number of the gasoline delivered to plaintiff by others and therefore cannot make such a comparison.

(d) Gasoline delivered by Shell to Continental Oil Company from Shell's Ciniza Refinery had the same physical, chemical and other characteristics, including the same research or motor octane number as that of the same grade contemporaneously delivered by Shell to plaintiff, except that, at times, gasoline delivered to Continental may not have contained the additives which were included in gasoline delivered to plaintiff.

Shell, although it precluded jobbers from purchasing from Shell's competitors by specification or otherwise, purchased from and exchanged petroleum products with other major oil companies, which were resold to Shell branded jobbers for distribution under the Shell trademarks. In this regard, Shell furnished specifications to the supplying company for gasoline to be purchased by Shell. Oftentimes, Shell did not make any independent tests to verify whether the petroleum products acquired through exchanges or purchases met the specifications imposed by Shell. In fact, on all spot exchanges, there was no test as to whether the petroleum products met the specifications other than the suppliers' word. Shell's actions, therefore, clearly indicate that petroleum products can be purchased by specification. It should be noted that a provisionally accepted consent order recently was entered by the Federal Trade Commission against Phillips Petroleum Company under which Phillips cannot prohibit its lessee-dealers from purchasing gasoline from non-Phillips suppliers. See 3 CCH Trade Regulation Reporter ¶ 20,716 (Sept. 17, 1974).

II. *Shell unlawfully tied Redd's purchase and resale of gasoline and petroleum products to the license to use the Shell trademarks.*

The Supreme Court has defined a tying arrangement as "an agreement by a party to sell one product but only on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that product from any other supplier." *Northern Pacific Ry. Co. v. United States* [1958 TRADE CASES ¶ 68,961], 356 U. S. 1, 6 (1958). In *Fortner Enterprises, Inc. v. United States Steel Corp.* [1969 TRADE CASES ¶ 72,757], 394 U. S. 495 (1969), the Court noted that proof of (1) tying and tied products, (2) sufficient power over the tying product to impose the tie, and (3) foreclosure of a substantial volume of commerce are the requisites of invoking the *per se* illegality doctrine in antitrust tie-in cases. Where these elements are proved, *per se* illegality is established because "Competition on the merits with respect to the tied products is inevitably curbed. Indeed 'tying agreements serve hardly any purpose beyond the suppression of competition'. . . . They deny competitors free access to the market for the tied product, not because the party imposing the tying requirements has a better product or a lower price but because of his power or leverage in another market. At the same time buyers are forced to forego their free choice betwen competing products." *Northern Pacific Ry. Co. v. United States, supra,* 356 U. S. 6. Consequently, the Supreme Court has repeatedly held that tying arrangements are *per se* unlawful. *Northern Pacific Ry. Co. v. United States, supra; United States v. Loews, Inc.* [1962 TRADE CASES ¶ 70,537], 371 U. S. 38 (1962); *Fortner Enterprises, Inc. v. United States Steel Corp., supra.* See generally, McCarthy, *Trademark Franchising and Antitrust, The Trouble with Tie-Ins,* 58 Calif. L. Rev. 1085 (1970).

Because the Supreme Court has long held that a "trademark cannot be legally used as a device for a Sherman Act violation", *Timken Roller Bearing Co. v. United States* [1950-1951 TRADE CASES ¶ 62,837], 341 U. S. 593, 599 (1951), the rules of *per se* illegality have been applied in trade-mark licensing tie-in cases. The legal requirements for establishing a *per se* unlawful tying arrangement in conjunction with the licensing of trademarks are set forth in *Siegel v. Chicken Delight, Inc.* [1971 TRADE CASES ¶ 73,703], 448 F. 2d 43 (9th Cir.), *cert. denied* 405 U. S. 955 (1972), expressly adopted and followed in *Warriner Hermetics, Inc. v. Copeland Refrigeration Corp.* [1972 TRADE CASES ¶ 74,062], 463 F. 2d 1002 (5th Cir.), *cert. denied* 409 U. S. 1086 (1972), and *Falls Church Bratwursthaus v. Bratwursthaus Management Corp.*, 1973-1 TRADE CASE, ¶ 74,408 (E. D. Va. 1973). In *Chicken Delight* the Ninth Circuit stated:

> In order to establish that there exists an unlawful tying arrangement plaintiffs must demonstrate *First*, that the scheme in question involves two distinct items and provides that one (the tying product) may not be obtained unless the other (the tied product) is also purchased. . . . *Second*, that the tying product possesses sufficient economic power appreciably to restrain competition in the tied product market. . . . *Third*, that a "not insubstantial amount of commerce is affected by the arrangement." [*Siegel v. Chicken Delight, Inc.*, 448 F. 2d at 47.]

These three elements of a *per se* unlawful tying arrangement occur in this case.

First, a trademark is a tying device for purposes of antitrust analysis. *Siegel v. Chicken Delight, supra; Warriner Hermetics, Inc. v. Copeland Refrigeration Corp., supra;* and *Falls Church Bratwursthaus v. Bratwursthaus Management Corp., supra.* The requirement of two sep-

arate products is clearly established in this case, because the "sale of a franchise license, with the attendant right to operate a business in the prescribed manner and to benefit from the goodwill of the trade name, in no way requires the forced sale by the franchisor of some or all of the component articles." *Siegel v. Chicken Delight, Inc.* [1971 TRADE CASES ¶ 73,703], 448 F. 2d at 49. See also *Warriner Hermetics, Inc. v. Copeland Refrigeration Corp., supra.* Here, Redd was licensed to use the Shell marks, brand names and color scheme, which are separate and independent items for purposes of antitrust analysis. See *Falls Church Bratwursthaus v. Bratwursthaus Management Corp., supra.*

Second, the Shell trademarks — the tying product — possess sufficient economic power to appreciably restrain competition in the tied product market of gasoline and other petroleum products because such power is presumed as a matter of law where the tying product is a registered trademark:

> It is now clear that sufficient economic power is to be presumed where the tying product is patented or copyrighted. . . .
>
> Just as a patent or copyright forecloses competitors from offering the distinctive product on the market, so the registered trade-mark presents a legal barrier against competition. It is not the nature of the public interest that has caused the legal barrier to be erected that is the basis for the presumption, but the fact that such a barrier does exist. Accordingly, we see no reason why the presumption that exists in the case of the patent and copyright does not equally apply to the trade-mark.
>
> Thus we conclude that the District Court did not err in ruling as a matter of law that the tying product — the license to use the Chicken Delight trademark — possessed sufficient market power to bring

the case within the Sherman Act. [*Siegel v. Chicken Delight, Inc.* [1971 TRADE CASES ¶ 73,703], 448 F. 2d at 50. Accord, *Warriner Hermetics, Inc. v. Copeland Refrigeration Corp., supra; Falls Church Bratwursthaus v. Bratwursthaus Management Corp., supra.*]

Thus, as a matter of law, from the presumed power to impose a tie-in arising out of the nature of registered marks, the Shell trademarks possess sufficient economic power to bring this case within the test of *per se* illegality.

Third, a "not insubstantial amount of commerce is affected by this arrangement." Specifically, the sales of gasoline and other petroleum products by Shell to Redd were in excess of $3,000,000. As a matter of law, this is a "not insubstantial amount of commerce." See *Fortner Enterprises, Inc. v. United States Steel Corp., supra,* 394 U. S. at 501-502. The "amount of commerce" requirement for bringing a case within the *per se* test of illegality also is met if the amount of commerce affected is not *de minimus. Falls Church Bratwursthaus v. Bratwursthaus Management Corp., supra.* Three million dollars' worth of Shell products sold to Redd and foreclosed to Shell's competitors is not *de minimus.* Thus, as a matter of law, the requirement of a "not insubstantial" or a "not *de minimus*" amount of commerce affected by the tying arrangement has been established in this case.

Shell has not pleaded any justification for the imposition of this tying arrangement. In response to Count III of the complaint, Shell simply denied the allegations and did not assert any affirmative defenses by way of justification. Consequently, as a matter of law, Shell is precluded from asserting any justification for its *per se* unlawful tying arrangement.

Shell did not authorize Redd to purchase gasoline and petroleum products from other suppliers on the basis of

specifications, even though Shell explicitly stated in response to Interrogatory 5 that there is no difference in "Shell gasoline and any other gasoline delivered to plaintiff or third persons." It should be noted that Shell purchased gasoline for resale under the Shell marks pursuant to exchange agreements and by specifications. In this regard, the Ninth Circuit in *Siegel v. Chicken Delight, Inc., supra,* 448 F. 2d at 51, stated:

> Restraint of trade can be justified only in the absence of less restrictive alternatives. In cases such as this, where the alternative of specification is available, the language of *Standard Oil Co. v. United States* . . . 337 U. S. at 306, in our view states the proper test, applicable in the case of trade-marks as well as in other cases:
>
> ". . . the protection of the goodwill of the manufacturer of the tying device — fails in the usual situation because specification of the type and quality of the product to be used in connection with the tying device is protection enough. . . . The only situation, indeed, in which the protection of goodwill may necessitate the use of tying clauses is where specifications for a substitute would be so detailed that they could not practicably be supplied."

See also the provisionally accepted consent decree entered by the Federal Trade Commission against Phillips Petroleum Company under which Phillips cannot prohibit its lessee-dealers from purchasing gasoline from non-Phillips suppliers. 3 CCH TRADE REGULATION REPORTER ¶ 20,716 (Sept. 17, 1974).

Therefore, on the uncontradicted evidence and as a matter of law, Redd is entitled to summary judgment on Count III of the complaint establishing that Shell's Jobber Sales Contract is a *per se* violation of Section 1 of the Sherman Act and Section 3 of the Clayton Act.

III. *Shell's use of its trademarks to impose an unlawful per se tying contract upon Redd, and Shell's jobber contract restricting Redd's right to resell products purchased from Shell to a defined territory and customers, both constitute a misuse of Shell's trademarks in violation of Section 33(b)(7) of the Lanham Act, thereby establishing an absolute defense to Shell's counterclaim for infringement.*

The contract between Redd and Shell restricts Redd's right to resell products purchased from Shell in the following manner (paragraph 6):

> 6. Franchise: During the continuance of this contract, Buyer shall have the right to sell, under the Shell trademarks, brand names and color scheme, the products purchased hereunder, for tank truck delivery within the territory outlined in red on the map attached hereto (herein called "Buyer's territory"); but Shell reserves for itself the right to sell its product under its trademarks, brand names and color scheme within Buyer's territory, and for itself and all others authorized by it, the right so to sell such products outside of Buyer's territory. Buyer shall not sell, under Shell's trademarks, brand names or color scheme: . . . any product purchased hereunder outside of, or for delivery or resale outside of, Buyer's territory (Shell's decision to be final a to whether or not any location is within Buyer's territory).

Even though title to the goods supplied under the contract passed to Redd, the plain meaning and actual effect of paragraph 6 is to (1) restrict resale geographically, (2) restrict the customers to whom Redd may resell within and without the assigned territory, and (3) divide geographic and customer markets between Redd and Shell. By restricting Redd's right to resell product to a specified territory and customers, the contract constitutes the *per se* violation of a restraint upon alienation, as enun-

ciated in *United States v. Arnold, Schwinn & Co.* [1967 TRADE CASES ¶ 72,126], 338 U. S. 365 (1967). In that case the Court stated:

> We are here concerned with a truly vertical arrangement, raising the fundamental question of the degree to which a manufacturer may not only select the customers to whom he will sell but also allocate the territories for resale and confine access to his product to selected, or franchised, retailers. We conclude that the proper application of § 1 of the Sherman Act to this problem requires differentiation between the situation where the manufacturer parts with title, dominion, or risk with respect to the article, and where he completely retains ownership and risk of loss.
>
> As the District Court held, where a manufacturer *sells* product to his distributor subject to territorial restrictions upon resale, a *per se* violation of the Sherman Act results. And, as we have held, the same principle applies to restrictions of outlets with which the distributors may deal and to restraints upon retailers to whom the goods are sold. Under the Sherman Act, it is unreasonable without more for a manufacturer to seek to restrict and confine areas or persons with whom an article may be traded after the manufacturer has parted with dominion over it. . . . Such restraints are so obviously destructive of competition that their mere existence is enough. If the manufacturer parts wtih dominion over his product or transfers risk of loss to another, he may not reserve control over its destiny or the conditions of its resale. To permit this would sanction franchising and confinement of distribution as the ordinary instead of the unusual method which may be permissible in an appropriate and impelling competitive setting, since most merchandise is distributed by means of purchase and sale . . . [T]o allow this freedom where the manufacturer has parted with dominion over the goods — the usual marketing situation — would violate the ancient rule against restraints on alienation and open the door to exclusivity of outlets and limi-

> tations of territory further than prudence permits. [388 U. S. at 378-80.]

The fact that the restriction upon resale is imposed pursuant to a trademark license is irrelevant because "a distributor of a trademarked article may not lawfully limit by agreement, express or implied, the price at which or the persons to whom its purchaser may resell." *United States v. Bausch & Lomb Optical Co.* [1944-1945 TRADE CASES ¶ 57,224], 321 U. S. 707, 721 (1941). The vertical market restraints imposed pursuant to trademark licenses on eye glass lenses in *Bausch & Lomb Optical Co., supra,* are strikingly similar to the vertical market restraints utilized by Shell in this case. See also *Timken Roller Bearing Co. v. United States, supra; Ethyl Gasoline Corp. v. United States* [1940-1943 TRADE CASES ¶ 56,013], 309 U. S. 346 (1940); *United States v. General Motors Corp.* [1966 TRADE CASES ¶ 71,750], 384 U. S. 127 (1966); *United States v. Topco Associates, Inc.* [1972 TRADE CASES ¶ 73,904], 405 U. S. 596 (1972); and *American Industrial Fastener Corp. v. Flushing Enterprises, Inc.* [362 F. Supp. 32] [1973-2 TRADE CASES ¶ 74, 619] 622 B. N. A. A. T. R. R. p. D-1, July 17, 1973 (N. D. Ohio).

In summary, Shell has unlawfully tied its trademarks to the purchase of gasoline and petroleum products, and Shell has unlawfully imposed vertical restraints upon the plaintiff's right to resell gasoline and petroleum products. Such conduct not only constitutes *per se* violations of Section 1 of the Sherman Act, but also constitutes a bar to an action for infringement of Shell's trademarks, thereby requiring summary judgment on Count II of Shell's counterclaim.

Section 33(b)(7) of the Lanham Act, 15 U. S. C. § 1115(b)(7), provides:

> If the right to use the registered mark has become incontestable under Section 1065 of this title, the registration shall be conclusive evidence of the registrant's exclusive right to use the registered mark in commerce or in connection with the goods or service specified in the affidavit filed under the provisions of said Section 1065 subject to any conditions or limitations stated therein except when one of the following *defenses or defects* is established:
>
> . . . .
>
> (7) That *the mark has been or is being used to violate the antitrust laws of the United States.* [Emphasis added.]

The legislative history of Section 33(b)(7) of the Lanham Act makes clear the intent of Congress to bar infringement actions on marks being used to violate the antitrust laws of the United States. Subsection 7 of Section 33(b) was inserted in the final bill at the insistence of the Senate and by agreement at the Conference Committee of the Senate and the House. The Conference Committee Report stated that "This amendment provides that the use of a registered mark in violation of the antitrust laws shall constitute a defense to a suit by the registrant." 92 Cong. Rec. 7872 (79th Cong., 2nd Sess., June 28, 1946); 92 Cong. Rec. 7523 (79th Cong., 2nd Sess., June 25, 1946). Senator O'Mahoney, a member of the Conference Committee and sponsor of the amendment, insisted that the purpose of the amendment be made absolutely clear: "Mr. President, the point I wish to make perfectly clear is that the use of such a mark to violate the antitrust laws constitutes a defense to an infringement suit." "[I]t is of such great importance to the public of the United States that restraints of trade shall not be permitted, that the Senate inserted this amendment to make it a defense to an infringement suit as well as to make it a ground for contestability if it should be shown that the registrant was using the mark itself to violate the antitrust law." (92 Cong. Rec. 7873.)

All three Senate conferees agreed that the test is not "that the trademark must be used in violation of the antitrust laws as the sole and efficient cause," but that "it must at least be one of the active, proximate causes in violation." With this understanding the Senate adopted the Conference Report (92 Cong. Rec. 7874) and the courts have followed this clear standard. For example:

> To the extent that plaintiff seeks by this action to protect the integrity of an exclusive wholesale marketing arrangement rather than the integrity of its trademark, it is sufficient to say that the Lanham Act affords no such protection and that a court of equity will not lend itself to this purpose in a trademark infringement action. [*Puritan Sportswear Corp. v. Shure,* 307 F. Supp. 377, 390-91] (W. D. Pa. 1966).

Here, Redd has established as a matter of law that Shell used its trademark to commit at least two *per se* violations of the antitrust laws for the purpose of maintaining its exclusive wholesale marketing arrangement rather than protecting the integrity of its trademarks. Pursuant to Section 33(b)(7) of the Lanham Act, Shell's violations of the antitrust laws constitute a bar to an action for infringement. *Puritan Sportswear Corp. v. Shure, supra; Phi Delta Theta Fraternity v. J. A. Buchroeder & Co.* [1966 TRADE CASES ¶ 71,734, 251 F. Supp. 968 (W. D. Mo. 1966).

Pursuant to Section 4 of the Clayton Act, because Shell has used its trademarks in a manner to violate the antitrust laws, Shell has lost the right to enforce its licenses and to sue for infringement. *Phi Delta Theta Fraternity v. J. A. Buchroeder & Co., supra; Morton Salt Co. v. G. S. Suppiger Co.* [1940-1943 TRADE CASES ¶ 56,176], 314 U. S. 488 (1942); *Lear, Inc. v. Adkins* [1969 TRADE CASES ¶ 72,823], 396 U. S. 653 (1969).

Therefore, as a matter of law, Redd is entitled to summary judgment dismissing Count II of Shell's counterclaim.